

Message Text

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TO AMEMBASSY TOKYO

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SUBJECT: MATSUKAWA/COOPER MEETING

1. ON AUGUST 10 MOF COUNSELOR MATSUKAWA MET WITH UNDER-SECRETARY COOPER, FOLLOWING MEETINGS WITH TREASURY, REGARDING JAPAN'S MACROECONOMIC PERFORMANCE. DISCUSSION FOCUSSED UPON THE NECESSITY OF ACHIEVING HIGH DOMESTIC GROWTH AND BALANCING THE EXTERNAL SECTOR. MATSUKAWA EXPRESSED CONFIDENCE IN ACHIEVING GNP GROWTH IN CY 78 OF "WITHIN THE RANGE" OF 6.5-7.0 PERCENT. MATSUKAWA WAS LESS SANGUINE ABOUT THE TRADE BALANCE, INDICATING THAT YEN REVALUATION AND THE "J" CURVE HAD UPSET THE PROCESS OF ADJUSTMENT, AND SUGGESTED A CY 78 TRADE BALANCE OF APPROXIMATELY \$17 BILLION. COOPER EMPHASIZED THE NECESSITY OF ACHIEVING ABOVE 7 PERCENT GROWTH IN DOMESTIC DEMAND TO BALANCE THE EXTERNAL SECTOR, AND NOTED THAT IF THE EXPORT CONTRIBUTION TO GROWTH DECREASES IN ONLY SMALL ANNUAL INCREMENTS LIKE
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CY 78'S PROJECTED -0.5 PERCENT, THEN IT WILL TAKE MANY YEARS TO WORK DOWN THE CURRENT LARGE SURPLUS. COOPER INDICATED THAT THIS WOULD PLACE SEVERE STRAINS ON THE INTERNATIONAL TRADING SYSTEM, AND THAT THE FAILURE TO SOLVE THESE PROBLEMS BY GOVERNMENT ACTION WOULD LEAD TO AUTONOMOUS SOLUTIONS VIA THE FOREIGN EXCHANGE MARKET. COOPER ALSO OBSERVED THAT PERSISTENCE OF THE SURPLUS WOULD GIVE

RISE TO PROTECTIONISM BY DEFICIT COUNTRIES, AND STATED THAT THE VANIK SUBCOMMITTEE LETTER ABOUT AN IMPORT SURCHARGE IS AN EXAMPLE OF THESE PRESSURES. MR. MATSUKAWA CLOSED BY EXPLAINING THAT COMPLETE DATA ON THE CY 78 FIRST HALF PERFORMANCE WILL BE AVAILABLE IN TIME FOR THE JAPANESE MINISTERS' ECONOMIC MEETING IN SEPTEMBER, WHEN APPROPRIATE COUNTERPOLICIES WILL BE DECIDED, AND OFFERED TO BRIEF MR. COOPER MORE FULLY AT THAT TIME. THERE WAS NO DIRECT DISCUSSION OF THE INTERVENTION ISSUE, NOR AT MATSUKAWA'S MEETINGS WITH UNDERSECRETARY SOLOMON AND CEA CHAIRMAN SCHULTZ. VANCE

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